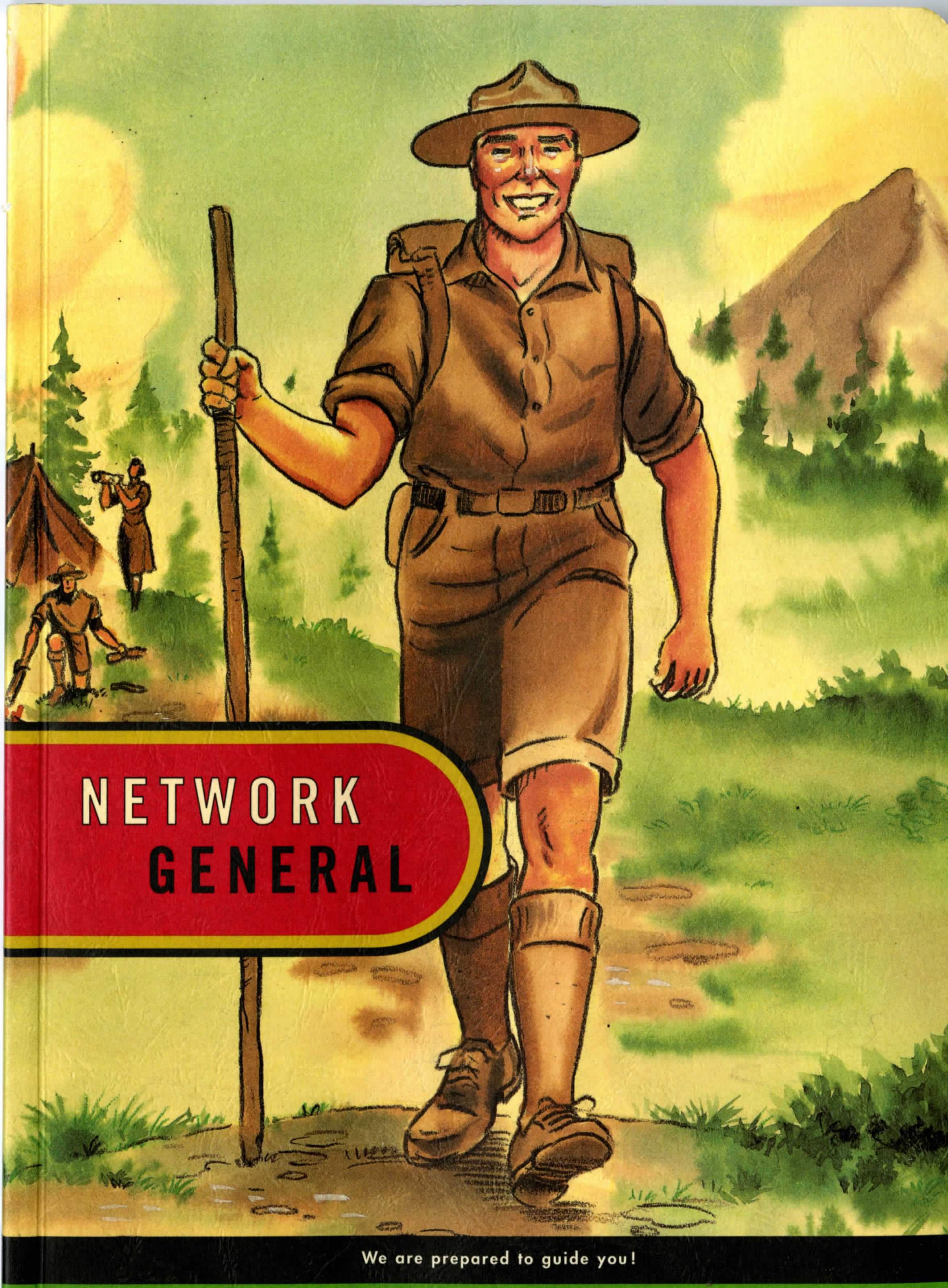
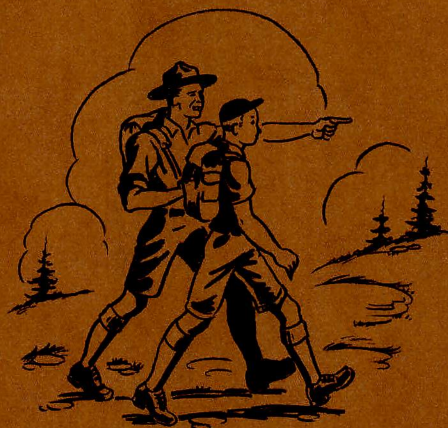

NETWORK
GENERAL
We are prepared to guide you!



We will lead you to the lookout point.

NETWORK GENERAL
PROVIDES
TOTAL
NETWORK VISIBILITY
SOLUTIONS.

The wilderness can be a dangerous place if you're not prepared with the right knowledge and equipment. Luckily, Network General can help guide you safely through the complex terrain of today's networks. We can help keep you safe and on track with systems, tools, and services, that provide everything you need for survival.

We're on the lookout!

Visibility to find and solve problems quickly!

TO OUR STOCKHOLDERS

Whether it is the explosion of the Internet, the proliferation of intranets within companies, or the constant expansion of Local and Wide Area Networks (LANs and WANs), the role of networks – and their importance to the businesses and organizations they support – has never been greater. These networks, and the information they transport, have become true business assets, as have the people who build and support them. And for these networking professionals, one company stands above all others in its ability to provide solutions to their networking problems. That company is Network General, the leader in network fault and performance management.

Our fiscal year which ended March 31, 1997 marks our most successful year to date, one in which we achieved record

revenues and record earnings. Focusing on our customers' needs for total visibility into their networks, we introduced our Total Network Visibility™ (TNV) architecture and delivered the first product in this new technology area. We expanded our channel and international operations while significantly increasing our service and support resources. And, in an internal move designed to strengthen our ability to develop products across the ever-expanding networking market, we organized the company into business units under the direction of our new Chief Operating Officer, Dave Carver.

Record Financial Results: Fiscal 1997 was another outstanding year for the Company. Revenues grew to $240,668,000 from fiscal 1996 revenues of $188,845,000, an increase of 27%. Without giving effect to the 3DV acquisition, which was completed March 31, 1997, net income for fiscal 1997 was $44,597,000, or $0.98 per share, compared to net income of $34,578,000, or $0.77 per share, excluding acquisition charges in fiscal 1996. After giving effect to acquisition charges incurred in each year, net

income for fiscal 1997 was $25,093,000, or $0.55 per share, compared to net income of $27,425,000, or $0.60 per share for fiscal 1996.

Product Development: To deliver on our commitment to provide our customers with total visibility into their networks, we completed the development and first stage of implementation of our new TNV architecture. The first product from this architecture, Service Level Manager™, was awarded Product of the Show at Fall Interop and was named Product of the Year by *Network Computing* magazine in April 1997. In addition, we expanded our core capabilities with the introduction of our 10/100 Notebook and WAN Notebook products. These developments continue to make best-in-class troubleshooting more available by bringing full functionality to more portable, cost-effective platforms.

Channel and International Expansion: Expanding our global reach, we completed a transition to a direct sales force in Germany, Switzerland, France, and as of April 1, 1997, the U.K.

The effect of this transition was international revenue growth of 47% year over year. For the fiscal year, total international revenues represented 27% of total revenue. Domestically, we expanded our indirect channel operations substantially, with indirect channel revenues nearly tripling year over year.

Organizational Development: As networking professionals not only try to keep up with new networking technologies but to implement and manage them, they look to Network General to provide solutions across the entire range of their rapidly expanding networks. To meet our customers' needs, we have organized our product organization into focused business units. These business units, currently – Systems, Tools, WAN, Internet and Services – allow us to focus on our customers' broader responsibilities as the first line of defense in identifying the cause of a wide range of network problems.

Our Employees: The success of this past year is directly attributable to the talents and efforts of our employees. Their dedication to our customers and commitment to provide the finest

products and services in the market has resulted in the outstanding year we just completed.

Finally, to our customers and our investors, we want to express our sincere appreciation for their support during the past year. We are committed to rewarding that support with the continuing development of our TNV strategy and the deployment of innovative products across the entire span of our customers' networking needs.

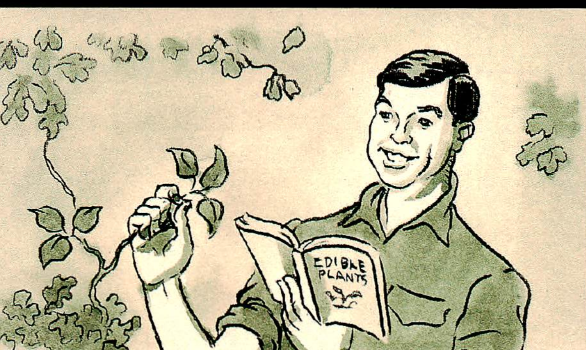
Thank you.

Leslie G. Denend

Leslie G. Denend
President and Chief Executive Officer

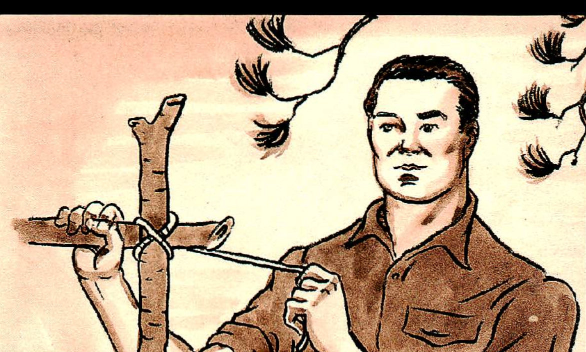
Senior Management Team

Leslie G. Denend
President and
Chief Executive Officer



David M. Carver
Executive Vice President and
Chief Operating Officer

James T. Richardson
Senior Vice President and
Chief Financial Officer

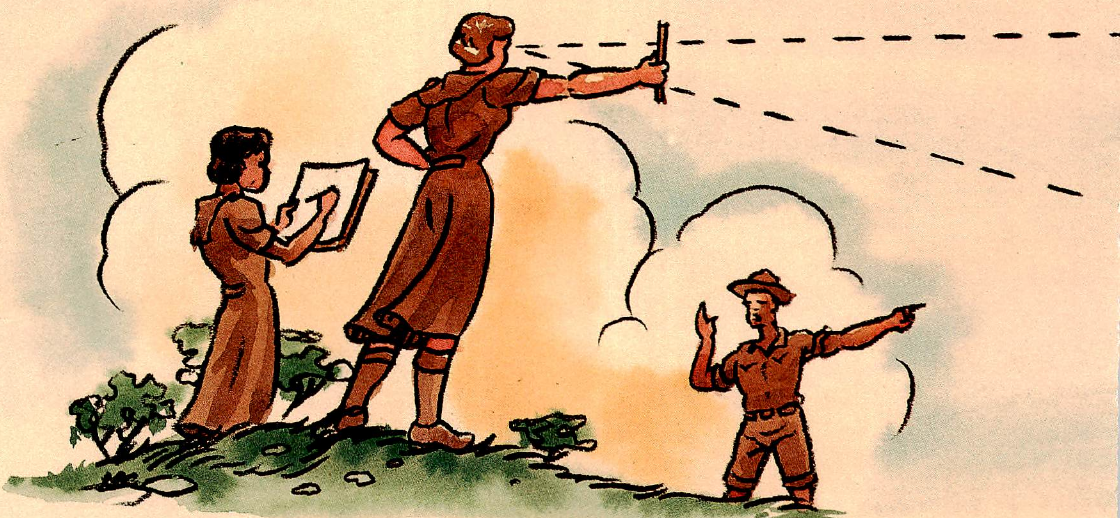


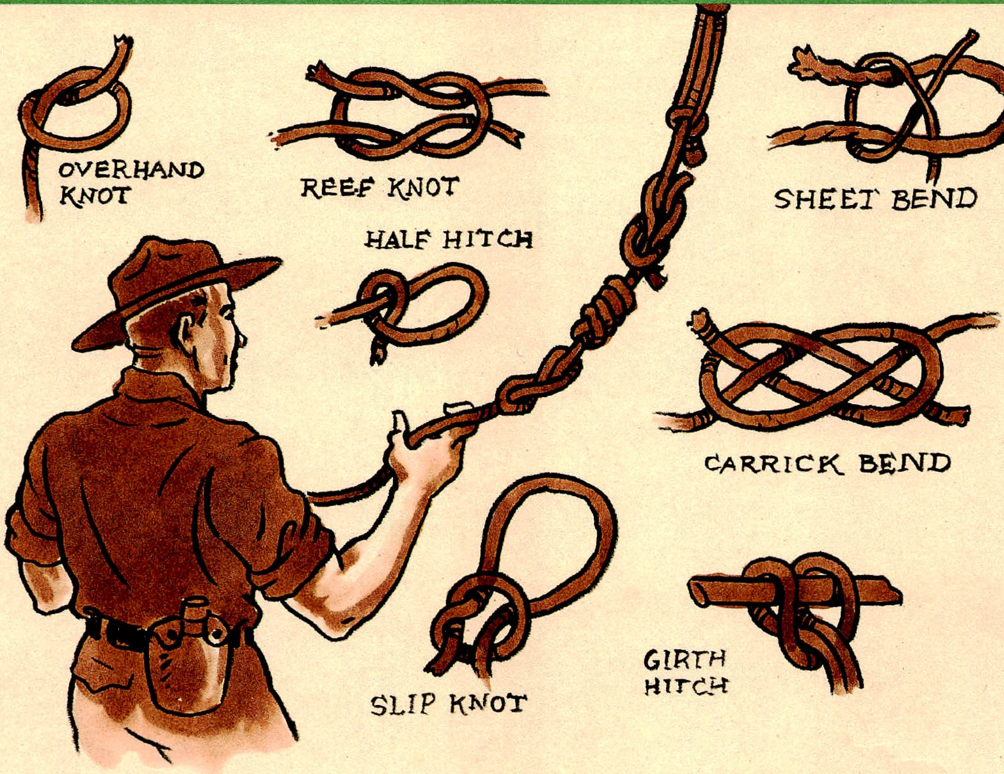
John R. Stringer
Senior Vice President
Worldwide Field Operations

Roll call!   Les! Dave! Jim! John!

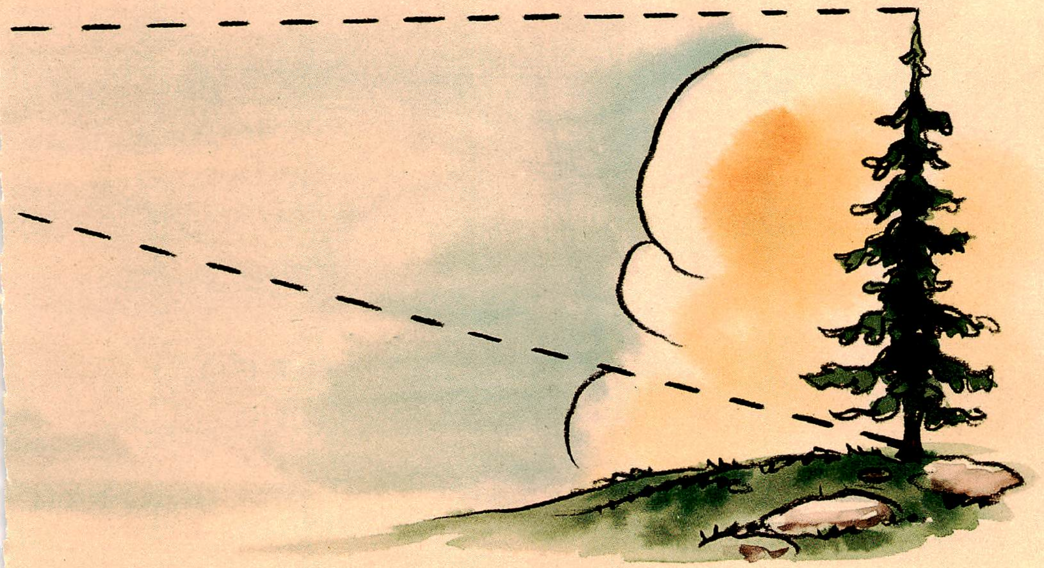
TODAY'S NETWORK PROBLEMS ARE INCREASING IN SIZE AND COMPLEXITY. THE NEED TO FIND AND SOLVE THEM QUICKLY IS BECOMING BUSINESS CRITICAL.

It is important to assess and measure the problem!



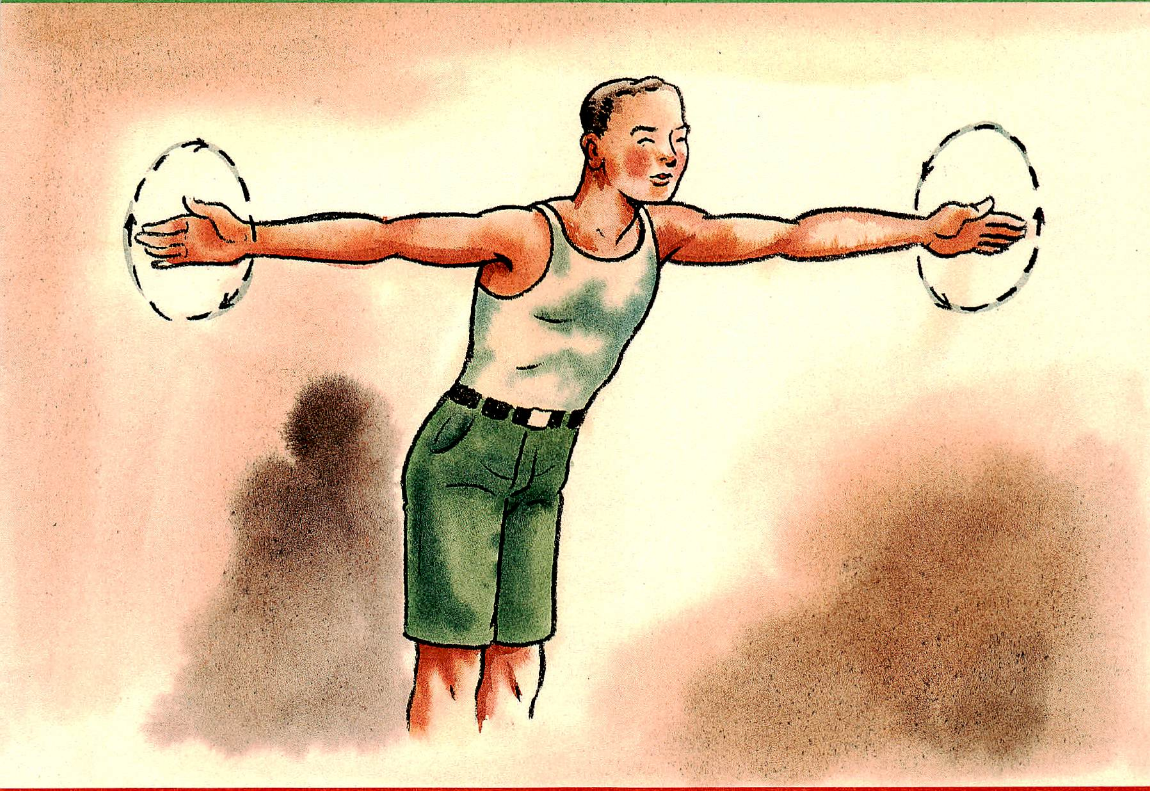


The trick is finding the right knot for the right use!

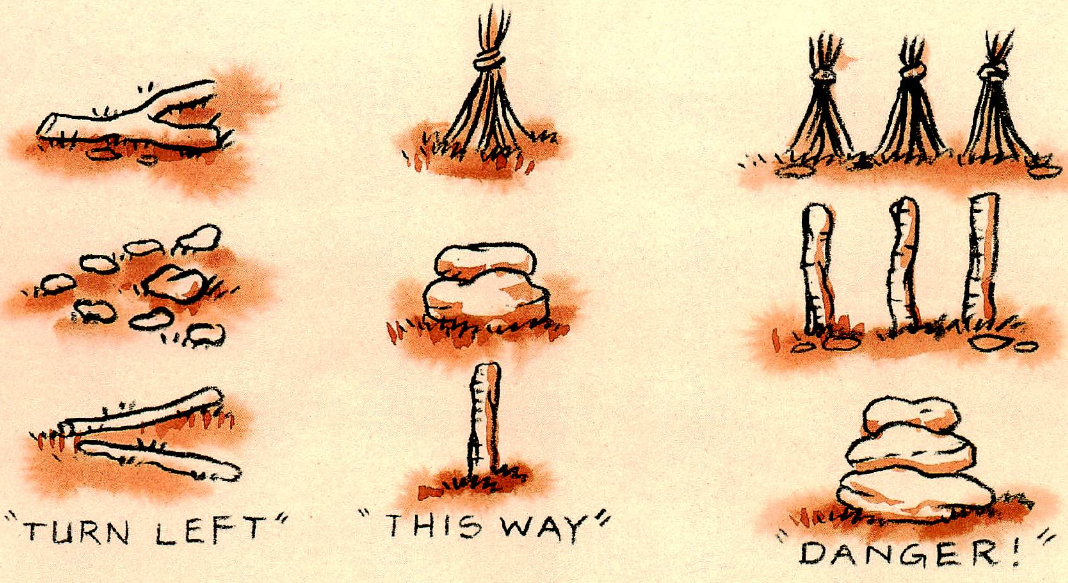


NETWORK GENERAL PROVIDES
A COMPLETE LINE OF
TOOLS AND SYSTEMS THAT CAN KEEP
HIGH PERFORMANCE NETWORKS
RUNNING SMOOTHLY.

We can show you the way!



A healthy and strong network will carry you through!



OUR ANALYSIS TOOLS
AND SYSTEM LEVEL PRODUCTS
GIVE CUSTOMERS
TOTAL VISIBILITY
INTO THEIR NETWORKS.

Help is on the way!

NETWORK PROFESSIONALS CAN TROUBLESHOOT AND PROBLEM-SOLVE WITH THE HELP OF OUR SERVICE AND SUPPORT OPTIONS.

And we know the shortcuts!

FINDING YOUR WAY

Be prepared. It's important to be prepared when traveling through unfamiliar territory. Finding your way can be difficult when the terrain is complex. Having the right equipment is vital to ensure safe travel, and a quick recovery if you ever stray off the trail.

Network professionals need to be prepared today more than ever. Downtime has significant bottom-line ramifications, and network professionals need to always be thinking ahead, anticipating and preventing problems before they occur. In the world of networking, no one practices this proactive approach to network management like Network General.

At Network General, we are committed to providing customers with the most complete insight possible into their

We can point you in the right direction!

And make it easy to follow your course!

Swift analysis and resolution can be critical!

Checking the efficiency of the traffic that you're moving on the network is our job!

Remember, bottlenecks can be dangerous!

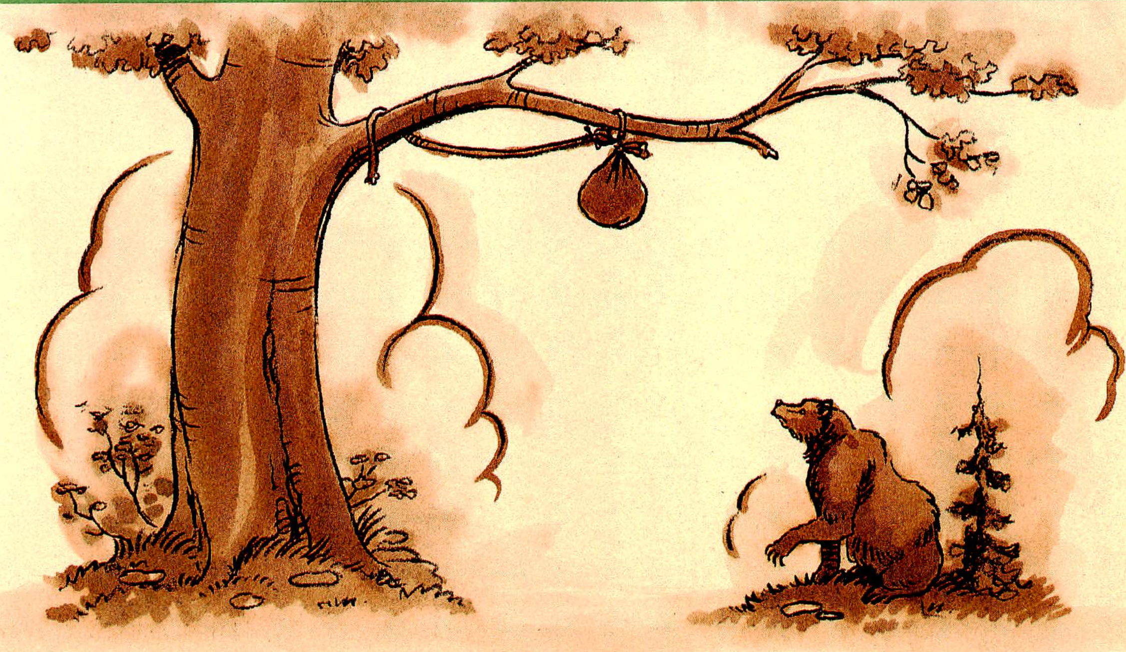
networks and their operations. We call this approach "Total Network Visibility" – the ability to see the entire breadth of the network – end-to-end and top-to-bottom, from the most basic physical layer of the network all the way up to the applications that run across it. Guided by our Total Network Visibility architecture and its resulting products, our customers now have the ability to understand, manage and document their networks' current and historical performance. In addition, they can now manage these networks in a proactive manner that until now was beyond their reach.

Our Service Level Manager product automatically collects data on all major network components, then delivers both real-time and historical analysis that can be used to fix current problems and prevent future ones. Armed with this data, network professionals can then put the Network General® Distributed Sniffer System® to work, detecting faults and increasing performance across their entire network.

Our recent acquisition of 3DV Technology, Inc. and its family of proactive network management products gives our customers detailed performance monitoring of their routers, switches and hubs, the core components of any network. And our strategic relationship with NetScout Systems (formerly Frontier) and their standards-based monitoring products give our customers the ability to baseline specific LAN or WAN segments, regardless of whether it's Ethernet, Token Ring or FDDI.

Foresight and preparation. Together they give our customers the ability to find their way through the maze of network components, to make sense of the reams of metrics and reports, with the end result being well-designed and well-managed networks performing at their best.

OUR SYSTEMS ARE
BOTH PROACTIVE AND
REACTIVE IN
AVOIDING AND SOLVING
PROBLEMS.



We help you keep your valuable
data safe and secure!

We'll help you set up your network!

Our tools make the job simple and fun!

SETTING UP CAMP

Have the right tools. When you venture into the wild, tasks like setting up camp can either be extremely difficult, or quick and easy, depending on whether or not you have the right tools. After you've chosen a campsite, you'll need certain tools to build a comfortable "architecture" where you'll enjoy spending time. These tools are important to make your tent secure, your food safe, and help protect you from natural hazards that might occur.

In today's networks, the amount of stress that is put on client/server architectures and bandwidth-intensive applications makes problems and downtimes inevitable. Network professionals the world over rely on Network General's Sniffer® family of products to identify problems, trace them to their source and recommend corrective action. Whether using the

Sniffer Network Analyzer for a specific problem or putting the Distributed Sniffer System to work across an entire network, network professionals can perform detailed analysis of network protocols within all seven network layers. Armed with the Sniffer products' intelligent, actionable information, managers can solve existing problems quickly and prevent future problems.

The data collected by the Sniffer products can be funneled to Network General's Reporter product, whose easy-to-read reports help managers plan for current technology deployment as well as future network growth. By tracking trends in LAN/WAN utilization, protocol distribution, error levels and connection statistics, network professionals can manage their constantly changing environment, including the justification of additional resources.

Networks aren't just getting more complex, they're getting faster as well. Network General continues to set the pace in network visibility by expanding its Sniffer products to

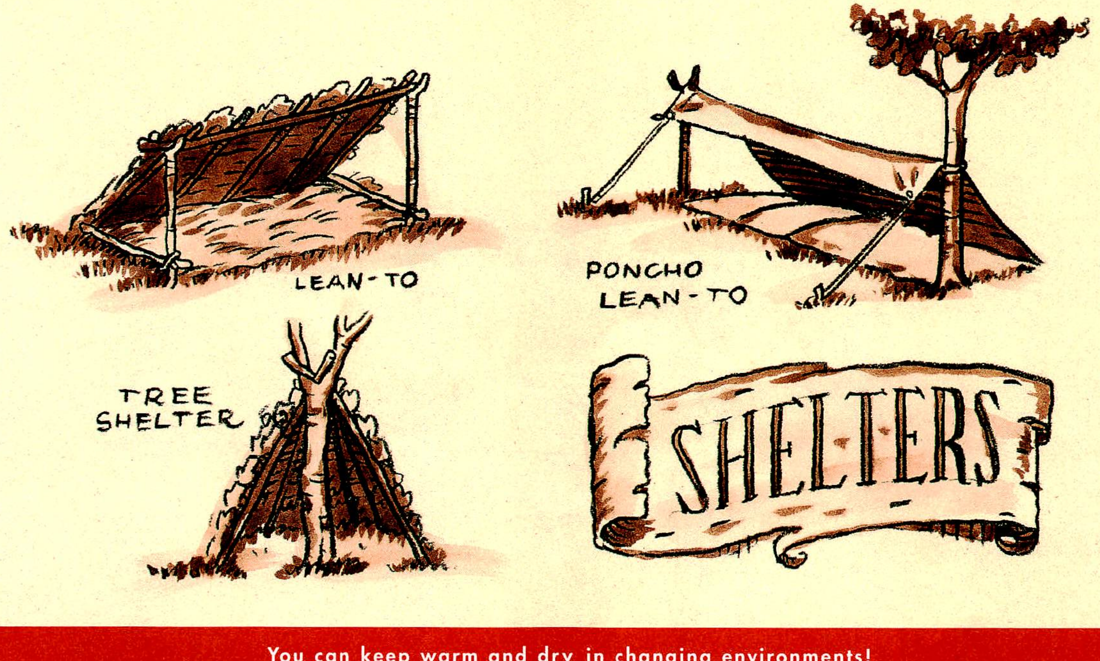
NETWORKS ARE

CRITICAL ASSETS

FOR SURVIVAL

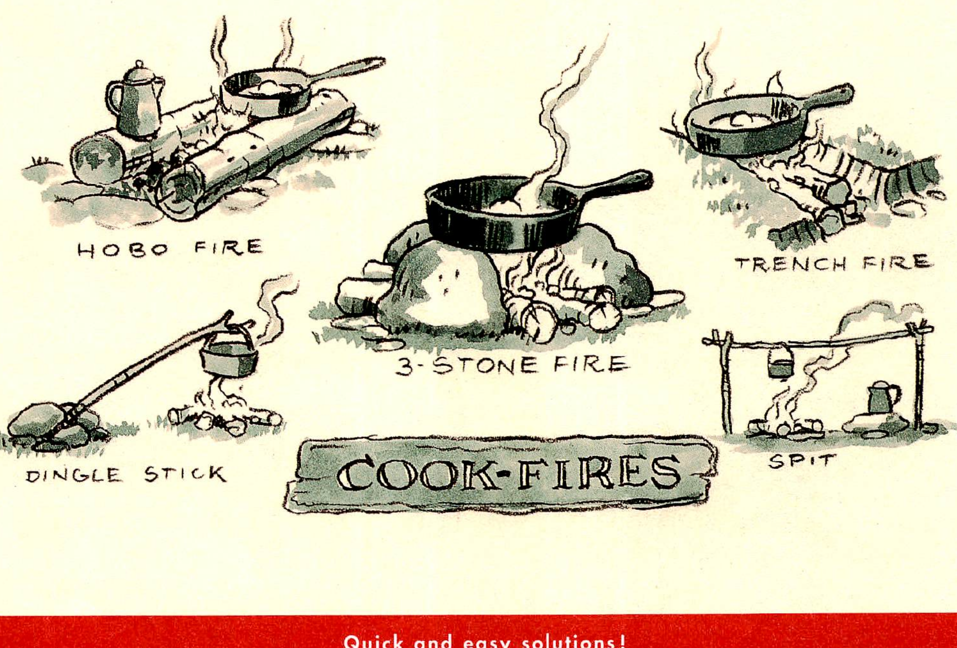
IN THE

BUSINESS WORLD.



You can keep warm and dry in changing environments!

Providing nifty tools for each job!



Quick and easy solutions!

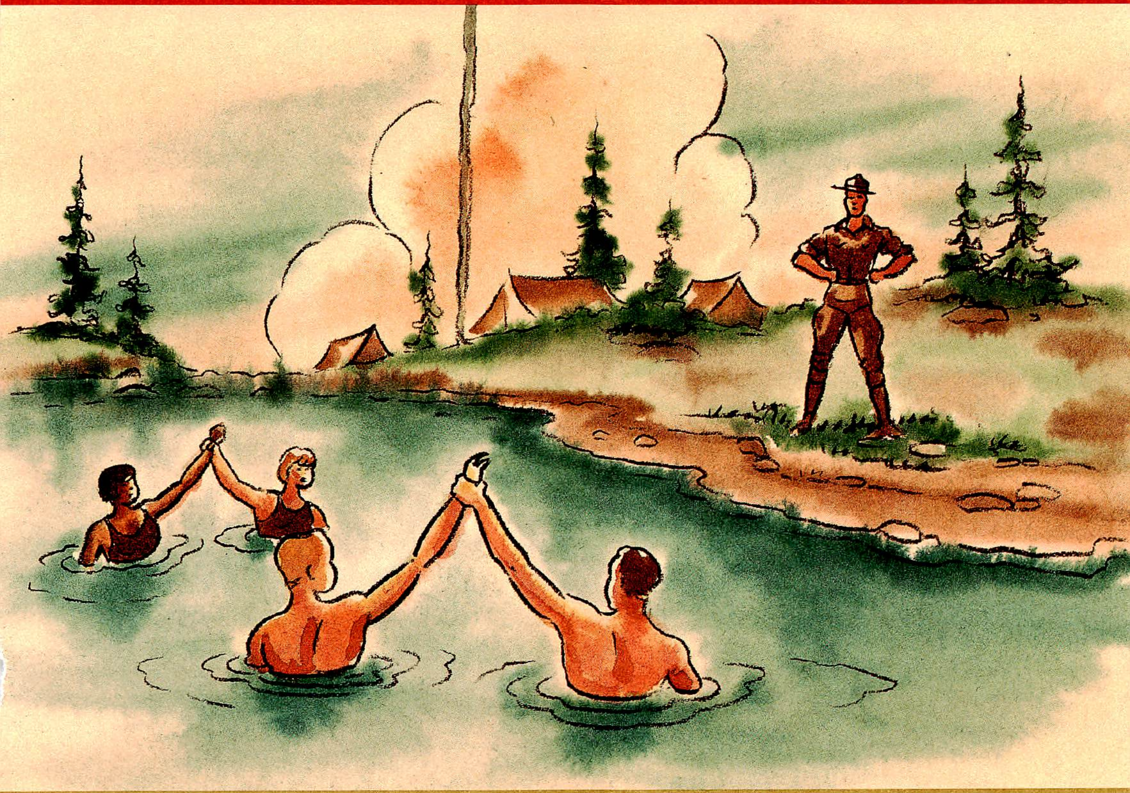
include such high-performance LAN technologies as ATM, Fast Ethernet, FDDI and Switched LANs. And as the Internet and remote access operations make WANs increasingly critical and visible, our expanding family of WAN products gives managers insight into, and control over, their Wide Area operations. With the Internet and internal corporate intranets putting new stress on networks and their managers, our new family of Internet products which are currently under development are targeted to provide increased security and troubleshooting capabilities across the full scope of today's new, expanded networks.

Rounding out our family of tools is Chariot, from Ganymede Software, Inc. By simulating real users running real applications, it gives managers an accurate forecast of how a proposed application might impact their networks. This before and after network can be observed by our Sniffer products for a truly proactive analysis of not only what problems to expect, but how to prevent them in the first place.

"BUDDY UP!"

THE USE OF THE BUDDY SYSTEM MEANS BEING SAFE. BUDDIES CHECK IN TOGETHER AND WORK TOGETHER TO ACHIEVE THEIR GOALS.

Working together makes the job easier!



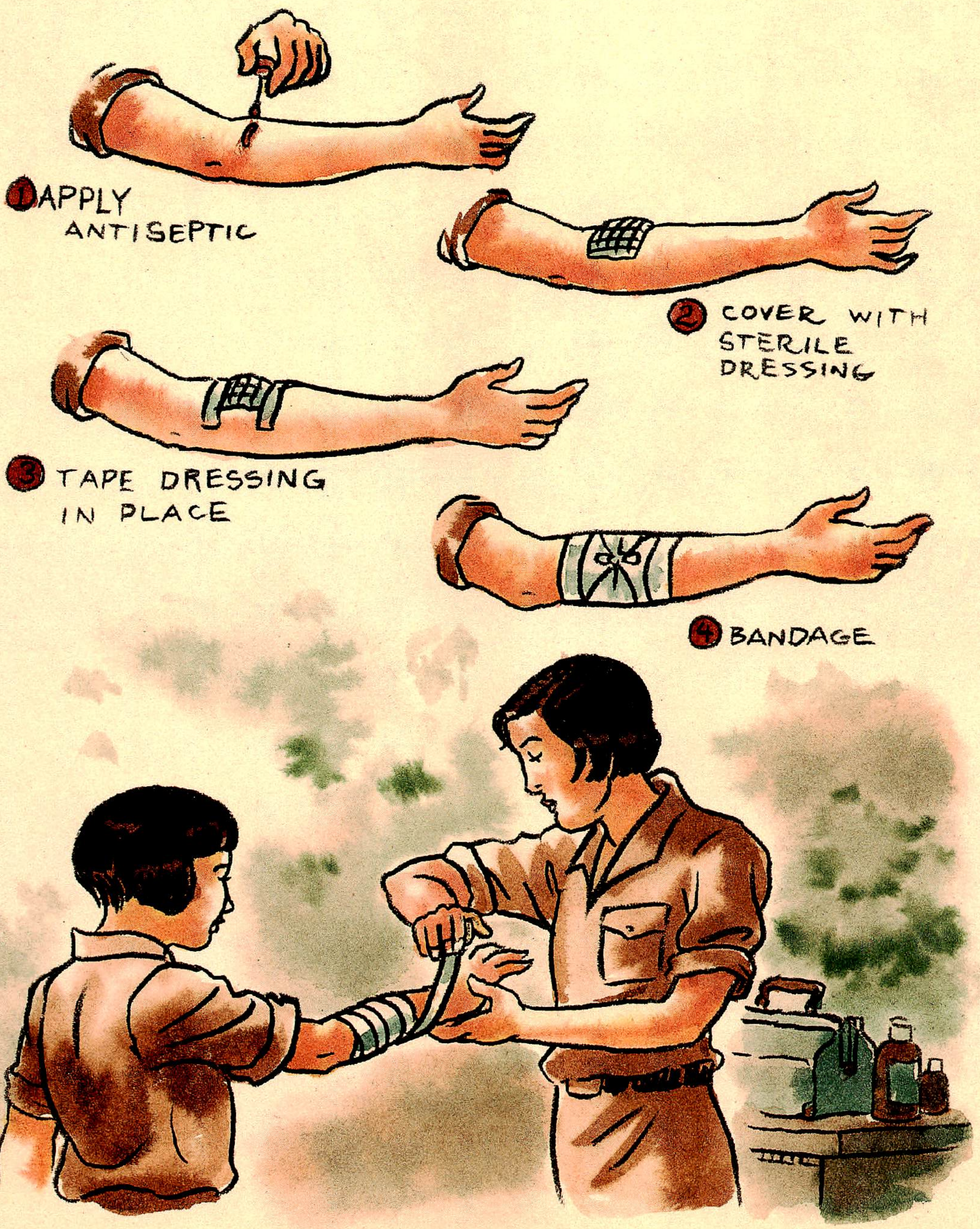
Partner-up with your buddy for a safe swim!

LEARNING NEW SKILLS

Become an expert. Do you know how to tie a slip knot? How are your whittling skills? What about first aid? Knowing how to both avoid and solve problems can make the difference between life and death in the wilderness. By being knowledgeable and prepared, you'll be able to avoid dangerous situations, when possible, and deal with them when they occur.

Commitment and resolution. Those are the principles that guide the people who make up Network General Services. A commitment to respond quickly to whatever problem our customers encounter, to do whatever it takes to solve it, then to work with our customers to ensure the problem – and others like it – never happens again.

Learn helpful new skills!



Knowing what to do is foremost!

Discover swell new things!

Our technology experts can teach you useful skills!

As networks become more complex, so do the problems within them. But at Network General, our response time to most customer calls for product assistance is about 90 seconds, with most of these problems being resolved the same day. And in crisis situations, we can have a consultant available to help almost immediately, either by phone using remote tools or on-site, troubleshooting the problem at hand and working to prevent its recurrence.

With companies moving to client/server networking and deploying bandwidth-intensive applications across their networks, network professionals are justifiably concerned about the stress these innovations put on their networks. Motivated by the high costs of network downtime, they are increasingly devoting their time and resources to problem prevention. Since its inception, Sniffer University™ has trained almost 25,000 network professionals with a curriculum that focuses on real-life network management issues. Whether the curriculum involves basic Sniffer training or advanced courses in how best to deploy Oracle and Sybase database applications,

our students leave our classes with the skills to deal with problems ranging from help desk issues to complex network performance challenges. The value of these courses to our customers is such that many customers now bring our Sniffer University courses on-site, while others work with our trainers to develop courses customized to their specific networking environment.

Taking problem prevention to the next level, many of our customers now involve our Network Consulting Group in the earliest stages of their network's development. These consultants – experts skilled in all levels of network fault and performance management – work with customers on everything from reviewing the design of the network to deploying new technologies to regular network health check-ups. The result is a network running at its optimal level, supported by a staff capable of maximizing their networking investment.

WE PROVIDE
TECHNOLOGY-BASED
EDUCATION, EXPERT
CONSULTING, AND
PRODUCT SUPPORT.

Teaming up early-on is smart!

Lending a helpful hand is part of our job!

Service to others is important!

HELPING OTHERS

Be helpful. Treating others with kindness and respect goes a long way. Being a good citizen means lending a hand to those in need.

Put simply, at Network General, we believe our job is to help others. Whether it's the network professional designing a complex network, an on-site technician trying to trace the problem that brought the network down, or a student looking to gain new skills, our job is to help these professionals do their jobs as well as they possibly can. Because when our customers perform at their peak, so do their networks.

This philosophy of helping others extends to the communities in which we live and work. At Network General, we believe strongly in contributing both our time and resources to

making our communities stronger, more productive and more self-reliant. To that end, we are actively involved in a number of community activities, from wiring elementary schools and bringing them up on the Internet, to leading food drives that assist the homeless.

"Think globally, act locally" may be a sales philosophy for most companies, but at Network General, we apply that approach to our corporate giving programs as well. While as a corporation we support a number of international charitable organizations, we encourage our employees to get involved in their local communities, matching their contributions and giving them time off to pursue volunteer activities.

We are proud of the spirit and dedication our employees bring to their endeavors, whether they be on behalf of our customers or the communities in which they live. Their commitment and enthusiasm are major factors in our success. We can't thank them enough for all their contributions.

FINANCIALS

Selected Financial Data

Consolidated Statements of Income Data

(In thousands, except per share amounts)	Year Ended March 31, 1997	1996	1995	1994	1993
Revenues	$ 240,668	$ 188,845	$ 139,755	$ 114,900	$ 86,483
Income from operations	38,577	35,438	31,768	13,915	10,415
Net income	25,093	27,425	25,411	11,276	8,645
Earnings per share	$ 0.55	$ 0.60	$ 0.57	$ 0.27	$ 0.22
Weighted average common and common equivalent shares outstanding	45,703	45,822	44,626	42,346	39,614

Consolidated Balance Sheet Data

(In thousands)	As of March 31, 1997	1996	1995	1994	1993
Working capital	$ 124,018	$ 125,841	$ 101,536	$ 65,457	$ 41,014
Total assets	263,271	223,330	196,190	160,846	132,033
Long-term obligations	3,860	3,248	2,225	2,134	1,555
Total stockholders' equity	179,396	180,117	165,587	132,283	109,562

Selected Financial Data *(continued)*

Quarterly Financial Data (Unaudited)

(In thousands, except per share and stock price amounts)	Three Months Ended Mar. 31, 1997	Dec. 31, 1996	Sept. 30, 1996	June 30, 1996
Revenues	$ 68,005	$ 65,438	$ 55,545	$ 51,680
Gross margin	50,505	48,326	41,438	38,707
Income (loss) from operations	(1,950)	17,189	12,533	10,805
Income (loss) before provision for income taxes	(685)	18,715	14,138	12,496
Net income (loss)	(6,425)	13,007	9,826	8,685
Earnings (loss) per share	(0.15)	0.28	0.22	0.19
Price range of common stock	29.75–19.63	30.25–22.19	26.31–16.06	27.00–18.19

(In thousands, except per share and stock price amounts)	Three Months Ended Mar. 31, 1996	Dec. 31, 1995	Sept. 30, 1995	June 30, 1995
Revenues	$ 53,786	$ 51,590	$ 43,729	$ 39,740
Gross margin	41,220	39,430	33,655	30,619
Income (loss) from operations	13,130	12,057	1,650	8,601
Income (loss) before provision for income taxes	14,891	13,776	3,510	10,347
Net income (loss)	10,350	9,574	310	7,191
Earnings (loss) per share	0.22	0.21	0.01	0.16
Price range of common stock	22.00–15.06	22.12–16.31	21.87–12.81	14.28–11.53

1) Amounts for fiscal year 1993 have been restated in order to comply with Statement of Position 91-1, *"Software Revenue Recognition."*

2) All periods reflect combined results for Network General Corporation and its subsidiaries, including ProTools, Inc. ("ProTools"), a wholly owned subsidiary of Network General Corporation. ProTools was acquired in January 1994 and the merger was accounted for as a pooling of interests. Accordingly, the financial statements for prior periods have been restated to include the results of ProTools. Total charges related to the merger were approximately $4,903,000, or $0.09 per share, and were recorded in the fourth quarter of fiscal year 1994.

3) Second quarter fiscal year 1996 results of operations include charges of $7,153,000, or $0.17 per share, related to acquired in-process research and development in connection with the acquisition of AIM Technology ("AIM") in a transaction in September 1995 accounted for as a purchase. Accordingly, the results of operations of AIM have been included in the results of the Company from the date of acquisition.

4) Fourth quarter fiscal year 1997 results of operations include charges of $19,504,000, or $0.43 per share, related to acquired in-process research and development in connection with the acquisition of 3DV Technology, Inc. ("3DV") in a transaction on March 31, 1997 accounted for as a purchase.

5) Fiscal year 1996 and prior periods reflect the 2-for-1 stock split, in the form of a stock dividend, approved by the Company's Board of Directors which was effective May 1996.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the Company's current judgment on those issues. Because such statements apply to future events, they are subject to risks and uncertainties and, therefore, actual results may differ materially. Important factors which could cause actual results to differ materially are described in the following paragraphs and are particularly noted under "Business Risks" below and in other reports filed with the Securities and Exchange Commission from time to time.

Income Statement Highlights

(In thousands, except per share amounts)	1997	Change	1996	Change	1995
Revenues	$ 240,668	27%	$ 188,845	35%	$ 139,755
Gross margin	178,976	23%	144,924	34%	107,956
Percentage of revenues	74%		77%		77%
Operating expenses	140,399(1)	28%	109,486(1)	44%	76,188
Percentage of revenues	58%		58%		55%
Net income	25,093	(9%)	27,425	8%	25,411
Earnings per share(2)	0.55(3)	(8%)	0.60(4)	5%	0.57

(1) Exclusive of acquisition and related non-recurring costs, operating expenses would have been $120,895,000 in 1997 and $102,333,000 in 1996.

(2) Fiscal year 1996 and prior periods reflect the 2-for-1 stock split, in the form of a stock dividend, approved by the Company's Board of Directors which was effective May 1996.

(3) Exclusive of the costs associated with the acquisition of 3DV in the fourth quarter, earnings per share for fiscal year 1997 would have been $0.98.

(4) Exclusive of the costs associated with the acquisition of AIM in the second quarter, earnings per share for fiscal year 1996 would have been $0.77.

Revenues

Sources of Revenues (In thousands)	1997	Change	1996	Change	1995
Domestic	$ 175,056	21%	$ 144,144	33%	$ 108,773
International	65,612	47%	44,701	44%	30,982
Total revenues	$ 240,668	27%	$ 188,845	35%	$ 139,755

Revenues for the fiscal year ended March 31, 1997 increased 27% to $240,668,000 compared to fiscal year 1996 revenues of $188,845,000. Fiscal year 1996 revenues increased 35% over fiscal year 1995 revenues. In both fiscal years, revenue growth was fueled by continued acceptance of the Company's tool and system products and services offerings, as well as expansion into indirect channels and international markets. The Company plans to continue expansion into indirect channels and international markets in fiscal year 1998.

Domestic revenues increased 21% to $175,056,000 for fiscal year 1997 compared to $144,144,000 for fiscal year 1996. The decrease in the domestic growth rate from fiscal year 1996 to fiscal year 1997 is the result of the Company's focus on growth in international markets, especially Europe, and increased competition in domestic markets. Fiscal year 1996 domestic revenues increased 33% compared to $108,773,000 for fiscal year 1995.

International revenues increased 47% for fiscal year 1997 compared to fiscal 1996. European revenues grew 54% from fiscal year 1996 to fiscal year 1997 as a result of the Company's European sales strategy involving both direct and indirect sales channels. Pacific Rim, Latin American and Canadian revenues increased 42% from fiscal year 1996 to fiscal year 1997 as a result of increased sales volumes by the Company's exclusive partner in Japan as well as increased sales volumes in Australia, Canada and Korea. Fiscal year 1996 international revenues increased 44% over fiscal year 1995 international revenues.

Sources of Revenues (In thousands)	1997	Change	1996	Change	1995
Tool products(1)	$ 121,199	27%	$ 95,310	30%	$ 73,114
Percentage of total revenues	50%		51%		52%
System products(2)	68,433	19%	57,346	44%	39,872
Percentage of total revenues	29%		30%		29%
Subtotal product revenues	189,632	24%	152,656	35%	112,986
Percentage of total revenues	79%		81%		81%
Services(3)	51,036	41%	36,189	35%	26,769
Percentage of total revenues	21%		19%		19%
Total revenues	240,668	27%	188,845	35%	139,755

(1) Tool Products include revenues from the Sniffer Network Analyzer ("Sniffer") local area network (LAN) analysis products, wide area network (WAN) analysis products, the NETSYS Technologies, Inc. line of connectivity and performance tools, the Ganymede Software, Inc. line of Chariot network performance test tools and royalties from license agreements. In both fiscal years 1996 and 1995, revenues from Tool Products also include Sniffer product rentals.

(2) System Products consist of revenues from the Distributed Sniffer System analysis products, performance measurement analysis products, the Foundation probe and agent remote monitoring products, the SharpShooter monitoring products, the DATACOM Systems, Inc. line of network switching devices and NetScout Systems, Inc. (formerly known as Frontier Software Development, Inc.) line of NetScout remote monitoring products.

(3) Services revenues includes first-year warranty revenues as defined by Statement of Position 91-1, *"Software Revenue Recognition,"* and revenues from software support, maintenance contracts and education and consulting services. In fiscal 1997, services revenues also include Sniffer product rentals.

The Company's tool products revenues increased 27% for fiscal year 1997 to $121,199,000 from $95,310,000 for fiscal year 1996. Fiscal year 1996 tool products revenues increased 30% from $73,114,000 in fiscal year 1995. The growth in both periods reflects continued expansion in the customer base for the Company's Sniffer Network Analyzer products which accounted for substantially all of the Company's tool products revenue in fiscal years 1997, 1996 and 1995. Tool products revenues represented 50% of

total revenues in fiscal year 1997 compared to 51% in fiscal year 1996 and 52% in fiscal year 1995.

Revenues for fiscal year 1997 included $68,433,000 of system products revenues, a 19% increase, compared to $57,346,000 for fiscal year 1996. The decrease in the growth rate of system products revenues from fiscal year 1996 to fiscal year 1997 was due to increased competition and the growth in indirect channel sales which are comprised primarily of tool products and services. Fiscal year 1996 system products revenues increased 44% from $39,872,000 in fiscal year 1995. The Distributed Sniffer System analysis products accounted for the majority of the Company's systems product revenues in fiscal years 1997, 1996 and 1995.

Services revenues include revenues from software support, maintenance contracts, and education and consulting services, as well as those revenues from the first year warranty period of customer support which have been deferred and recognized in accordance with Statement of Position 91-1, *"Software Revenue Recognition."* For fiscal year 1997, services revenues increased 41% to $51,036,000 compared to $36,189,000 for fiscal year 1996. Fiscal year 1996 services revenues increased 35% from $26,769,000 in fiscal year 1995. The increase in services revenues resulted from growth in all categories of services revenues but principally due to the growth of the installed customer base and the resulting renewal of maintenance contracts. In addition, demand increased for the Company's education and consulting services. As a percentage of total revenues, services revenues represented 21% of revenues in fiscal year 1997 and 19% of revenues in each of fiscal years 1996 and 1995.

Gross Margin

Cost of revenues consists of manufacturing costs, cost of services, royalties and warranty expenses. Gross margin as a percentage of revenues decreased to 74% for fiscal year 1997 from 77% in each of fiscal years 1996 and 1995. The decrease resulted from: changes in the mix of products sold (increased sales of third party products and platforms which have a lower gross margin than the Company's own products); higher growth in services revenues which have historically lower gross margins than those of the Company's products; and increased market pressure to reduce prices or offer higher price discounts on the Company's products. The Company expects to continue offering third party products and platforms and to grow its services business, but also intends to increase its sales and licensing of internally developed products and reduce certain of its platform resale activities. During fiscal year 1997, the Company was able to offset the impact of reduced gross margins with a reduction in operating expenses as a percentage of revenues. There can be no assurance the Company will be able to offset reduced gross margins through continued cost management.

Sales and Marketing Expenses

Sales and marketing expenses increased 19% to $74,638,000 in fiscal year 1997 compared to $62,533,000 in fiscal year 1996. Fiscal year 1996 sales and marketing expenses increased 33% compared to fiscal year 1995 sales and marketing expenses of $47,049,000. The increases in fiscal years 1997 and 1996 were due primarily to increased staffing, commission expenses and promotional activities required to support increased sales volumes. As a percentage of revenues, sales and marketing expenses decreased to 31% in fiscal year 1997 compared to 33% and 34% in fiscal years 1996 and 1995, respectively. The decrease is attributable to the increased

use of indirect distribution channels to sell the Company's products and services, thereby reducing the amount of direct selling costs related to such sales of the Company's products and services.

Research and Development Expenses

Research and development expenses were $30,891,000 in fiscal year 1997 compared to $27,417,000 in fiscal year 1996 and $19,968,000 in fiscal year 1995. As a percentage of revenues, research and development expenses decreased to 13% for fiscal year 1997, compared to 15% and 14% in fiscal years 1996 and 1995, respectively. The percentage decrease between fiscal year 1997 and 1996 resulted from significant expenses incurred in fiscal year 1996 to support accelerated development efforts of high speed network technology products. The increase in actual spending was a result of increased staffing and equipment expense to support growth in the Company's breadth of product and services offerings. The Company believes continued commitment to research and development is required to remain competitive and, as such, expects research and development expenses in absolute dollars to increase in fiscal year 1998.

General and Administrative Expenses

General and administrative expenses for fiscal year 1997 increased 24% to $15,366,000 compared to $12,383,000 for fiscal year 1996. Fiscal year 1996 expenses increased 35% compared to expenses of $9,171,000 for fiscal year 1995. The increase in general and administrative expenses in both fiscal years was primarily due to increased staffing to support operations. General and administrative expenses as a percentage of revenues were 6% in fiscal year 1997 and 7% for each of fiscal years 1996 and 1995, respectively.

Acquired In-Process Research and Development

Acquired in-process research and development was $19,504,000 in fiscal year 1997 and $7,153,000 in fiscal year 1996. Acquired in-process research and development in 1997 reflects the value of development projects in process at the time of the acquisition of 3DV Technology, Inc. ("3DV") which was charged to operations on March 31, 1997, the effective date of the acquisition. Acquired in-process research and development in fiscal year 1996 reflects the value of development projects in process at the time of the acquisition of AIM Technology ("AIM") which was charged to operations in the second quarter of fiscal year 1996. In both fiscal years, the amount allocated to acquired in-process research and development related to projects which had not reached technological feasibility and had no probable alternative future uses. (See Note 2 of Notes to Consolidated Financial Statements.)

There were no acquired in-process research and development charges in fiscal year 1995.

Interest Income, Net

Interest income, net decreased 14% to $6,087,000 in fiscal year 1997 compared to $7,086,000 in fiscal year 1996. The decrease in interest income is primarily the result of the repositioning of a portion of the Company's investment portfolio from taxable U.S. debt to tax-exempt municipal securities which paid lower pre-tax interest income. Interest income, net increased 33% in fiscal year 1996 compared to $5,328,000 in fiscal year 1995 as a result of higher balances of cash equivalents and marketable securities, as well as an investment diversification from tax-free municipal to taxable U.S. debt securities which paid higher pre-tax interest during fiscal year 1996. Due to the Company's continued commitment to its

systematic share repurchase program and the reduction in cash balances available for investment as a result of the 3DV acquisition at the end of fiscal 1997, interest income is expected to decline in fiscal 1998.

Provision for Income Taxes

The provision for income taxes was 43.8% for fiscal year 1997, compared to 35.5% for fiscal year 1996 and 31.5% for fiscal year 1995. Excluding the impact of the 3DV acquisition during fiscal year 1997 and the impact of the AIM acquisition during fiscal year 1996, the provision for income taxes would have been 30.5% in each of fiscal years 1997 and 1996. Excluding the impact of the 3DV acquisition, the fiscal year 1997 provision rate of 30.5% resulted from the Company's ability to utilize certain operating loss carryforwards. Substantially all of these operating loss carryforwards were fully utilized at the end of fiscal year 1997 and, as a result, the provision for income taxes is expected to be between 33% and 35% in fiscal year 1998.

Earnings Per Share

Earnings per share for fiscal year 1997 decreased 8% to $0.55 per share compared to $0.60 per share in fiscal year 1996. Excluding one-time charges to write-off acquired in-process research and development related to 3DV in fiscal year 1997 and AIM in fiscal year 1996, earnings per share would have been $0.98 and $0.77 in fiscal years 1997 and 1996, respectively. Excluding these one-time charges, the increase in earnings per share from fiscal year 1996 to fiscal year 1997 was due to increased revenues and gross margin dollars and lower operating expenses as a percentage of revenues. Excluding the effect of AIM, earnings per share for fiscal year 1996 increased 35% over fiscal year 1995 earnings per share of $0.57.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities increased $16,842,000, $22,683,000, and $37,355,000 in fiscal years 1997, 1996 and 1995, respectively. The primary source of these funds in all periods was cash provided by operating activities, as well as proceeds from the issuance of common stock under the Company's stock option and employee stock purchase plans.

Net cash generated from operations in fiscal year 1997 was $52,794,000 compared to $39,873,000 in fiscal year 1996 and $33,144,000 in fiscal year 1995. The primary source of these funds was net income before depreciation and amortization for all periods. The net increase in 1997, after adjustments related to depreciation, amortization and acquired in-process research and development, reflects increases in accounts payable and accrued liabilities and deferred revenue, offset by increases in accounts receivable and deferred taxes, net. The net increase in fiscal year 1996, after adjustments related to depreciation, amortization and acquired in-process research and development, reflects increases in accounts payable and accrued liabilities and deferred revenue, offset by an increase in accounts receivable. The net increase in fiscal year 1995, after adjustments related to depreciation and amortization, reflects a decrease in deferred taxes, net, an increase in deferred revenue and reductions in accounts receivable, partially offset by an increase in inventories and prepaid expenses and other assets.

Net cash used in investing activities was $12,014,000, $11,748,000, and $26,373,000 during fiscal years 1997, 1996 and 1995, respectively. Net cash used in investing activities during fiscal 1997, 1996 and 1995 reflects purchases of investments and net additions to property and equipment, offset by proceeds from the sales/maturities of investments reinvested in

cash and cash equivalents. Additionally, the Company used cash of $6,501,000 to complete the purchase of AIM in fiscal 1996.

Net cash used in financing activities during fiscal 1997 was $26,182,000. The primary use of those funds was to repurchase 2,200,000 shares of the Company's common stock at an average price of $24.07 per share, partially offset by proceeds from the issuance of common stock under the Company's stock option and employee stock purchase plans. Net cash used in financing activities was $12,895,000 for fiscal year 1996. The primary use of those funds was to repurchase 1,700,000 shares of the Company's common stock at an average price of $18.16, partially offset by proceeds from the issuance of common stock under the Company's stock option and employee stock purchase plans. Net cash provided by financing activities was $7,893,000 for fiscal year 1995. The primary source of those funds was proceeds from the issuance of common stock under the Company's stock option and employee stock purchase plans, partially offset by repurchases of 790,000 shares of the Company's common stock at an average price of $11.08. As of March 31, 1997, the Company was authorized to repurchase up to an additional 3,310,000 of its shares on the open market. The Company anticipates it will continue its systematic share repurchase program.

As of March 31, 1997, the Company's principal sources of liquidity included cash, cash equivalents, marketable securities and long-term investments totaling $164,901,000. The Company currently has no outstanding bank borrowings nor any established lines of credit. The Company believes cash generated from operations, together with existing cash and investment balances, will be sufficient to satisfy operating cash and capital expenditure requirements through at least the next twelve months.

Impact of Recently Issued Accounting Standards

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, *"Earnings per Share"* ("SFAS 128") which is required to be adopted by the Company in its third quarter of fiscal 1998. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate earnings per share amounts for all prior periods. Under the new requirements for calculating earnings per share, primary earnings per share will be replaced with basic earnings per share and fully diluted earnings per share will be replaced with diluted earnings per share. Under basic earnings per share, the dilutive effect of stock options will be excluded. The Company does not expect the effect of adopting SFAS 128 to have a material impact on earnings per share.

Business Risks

The following is a summary of risks affecting the business and results of Network General Corporation ("Network General") and should be read in conjunction with the description of the Company's business contained in the other sections of the Company's Form 10-K for the year ended March 31, 1997 (the "1997 10-K").

Fluctuations in Periodic Results. The Company's operating results can vary substantially from period to period. In April 1997, the Company announced it expected its earnings growth rate for the first half of fiscal 1998 to be lower than it was in fiscal 1997. Management expects the lower growth rate to be a result of a number of factors, including lower order growth rates than experienced in recent periods, increased staffing in the Company's research and development, direct sales and service organizations, anticipated decreases in investment balances, the dilutive effect of 3DV operations, and

a higher planned tax rate. The Company's order rates for the first two months of the first quarter of fiscal year 1998 were lower, as a percentage of quarterly planned orders, than the Company had experienced during its fiscal year 1997 quarters. There can be no assurance that the Company's actual results will meet the operating plan for fiscal year 1998 or for any particular quarter.

The timing and amount of the Company's product revenues are subject to a number of factors that make estimating operating results prior to the end of a quarter extremely uncertain. Historically, the Company has not maintained a significant level of backlog and, as a result, product revenues in any quarter are dependent on contracts entered into or orders booked and shipped in that quarter. During fiscal 1997, the Company generally experienced a trend toward higher order receipts toward the end of each month of a quarter, resulting in a higher percentage of revenue shipments during the last month of a quarter than in fiscal 1996, which makes predicting results more difficult. The timing of closing of large product sales or licensing transactions increases the risks of quarter-to-quarter fluctuations and the uncertainty of estimating quarterly operating results.

Over the last two fiscal years, gross margin as a percentage of revenue declined from 77% to 74% due principally to three factors: increased sales of third party products which generally have lower gross margins for the Company; increased revenue attributable to services which have a high labor cost; and increased pressure to reduce prices or grant higher price discounts. The Company has been successful in offsetting these declines in gross margin by controlling operating expenses. If the Company is unable to continue to offset future gross margin declines, if any, by continued control of operating expenses, the Company's operating results could be materially adversely affected.

Planned operating expenses are normally targeted to planned revenue levels for the period and are incurred ratably throughout the period. If expenses remain relatively fixed, but the Company's revenues are less than planned in any quarter, Network General's operating results would be adversely affected for that quarter. Recently the Company has experienced a trend toward higher order rates and revenue shipments in the last month of a quarter. These trends make it more difficult to minimize the impact of a revenue shortfall by reducing spending levels. In addition, incurring unplanned expenses could adversely affect operating results for the period in which such expenses are incurred.

Failure to achieve periodic revenue, earnings and other operating and financial results as forecasted or anticipated by brokerage firms or industry analysts could result in an immediate and adverse effect on the market price of the Company's common stock. The Company may not discover, or be able to confirm, revenue or earnings shortfalls until the end of a quarter, which could result in a greater immediate and adverse effect on the Company's stock price.

Customer Purchase Decisions. The products offered by the Company may be considered to be capital purchases by certain customers or prospective customers. Capital purchases are often considered discretionary and, therefore, are cancelled or delayed if the customer experiences a downturn in its business or prospects or as a result of economic conditions in general. Any such cancellation or delay could adversely affect the Company's operating results.

Product Development. Network General's long-term success will depend on its ability to enhance its product offerings and to introduce new products on a timely and cost-effective basis which meet the needs of its current and future customers. The Company remains committed to adding new technologies and products through continued investments in research

and development and through strategic acquisitions. During fiscal year 1997, the Company announced its Total Network Visibility open application architecture intended to provide enterprise-wide management of complex heterogeneous client-server environments. The success of the architecture is dependent on the development of applications to help manage key areas of interest for users and customer acceptance of those applications. However, there can be no assurance Network General will be successful in developing new products or in enhancing existing products or that new or enhanced products will meet market requirements. Network General has, from time to time, experienced delays in introducing new products. While the Company believes such delays have not been materially harmful to the Company's business or reputation, future delays could adversely impact acceptance of and revenue generated from the sale of any delayed products.

Integration of 3DV Technology, Inc. The Company acquired 3DV with the expectation the acquisition would result in beneficial synergies for the combined operation, including the enhancement of the suite of products offered by the Company's Systems Technology Business Unit. That suite of products requires the successful integration of both technology (key 3DV technology with the Company's Total Network Visibility architecture) and personnel (the engineering departments of 3DV and the Company's Systems Technology Business Unit), as well as customer acceptance of the 3DV technology. In addition, the Company intends to continue selling 3DV products on a stand-alone basis for the foreseeable future, the success of which is dependent on the integration of the two companies' sales forces and the training of Network General's sales force as to 3DV products. There can be no assurance the integration of technology, engineering departments or sales organizations will be successful or will not take longer than anticipated.

International Sales and Activities. Revenues derived from Network General's international operations continue to increase in absolute dollars as well as a percentage of total revenues. Europe is one of the Company's key international markets. The Company's selling strategy in Europe continues to transition from indirect to direct selling. Additionally, management believes that there is some weakening in the European market for networking products. These factors may limit the Company's ability to achieve its growth objectives in Europe in the near term. While most of the Company's sales or license transactions are U.S. dollar denominated, a growing number of transactions, particularly in Europe, are invoiced in local currency. The Company has sales and support offices throughout Europe and, to a lesser extent, the Pacific Rim and Latin American territories. Expenses of the overseas operations are incurred in local currency. Accordingly, Network General has exposure for potential losses in the value of foreign currency transactions relative to the U.S. dollar between the time the transaction is entered on the Company's financial statements and the time the receivable or expense is paid. To minimize the impact of foreign currency fluctuations, the Company maintains a hedging program to cover forecasted foreign currency based transaction exposures. The current program uses foreign exchange forward contracts and may, in the future, include other means such as foreign currency option contracts. There can be no assurance the Company's hedging program will continue to minimize any adverse impact of foreign currency exchange rate fluctuations. Also, Network General's operations could be adversely affected by other factors associated with international operations such as uncertainties relative to regional economic circumstances, political instability in emerging markets and difficulties staffing and managing foreign operations.

Competition. As described in the Business section of the 1997 10-K, the Company competes with an array of established and emerging computer, communications, intelligent network wiring, network management and test equipment companies. Some of these companies have greater financial, technological and personnel resources than those of Network General. The smaller competitors are often willing to offer lower pricing or other favorable terms for products competitive with those of the Company. This could result in pressure on the Company to reduce pricing on its products unless it is able to prevail on the sale by successfully differentiating the benefits and functionality of the Company's products compared to those of the competitor. Moreover, new competitors, new technology and new marketing techniques may cause customer confusion, thereby lengthening the sales cycle process for the Company's products.

Retention of Key Personnel. The Company's ability to achieve its revenue and operating performance objectives will depend in large part on its ability to attract and retain technically qualified and highly skilled sales, consulting, technical, marketing and management personnel. Network General competes for engineers for its development organizations principally in California's Silicon Valley and in Oregon against companies with far greater resources and broader focus in the networking industry. It vies for all of its personnel with other members of the networking product industry, where competition for such personnel is intense and is expected to remain so for the foreseeable future. Failure to retain and grow its key employee population could adversely affect Network General's business and operating results.

Intellectual Property. The Company relies on a combination of trade secret, copyright, and trademark laws and contractual provisions to protect its proprietary rights in its products. There can be no assurance these protections will be adequate or that competitors will not independently

develop technologies that are substantially equivalent or superior to Network General's products. There has been a trend toward litigation regarding patent and other intellectual property rights in the software industry. Although there are currently no lawsuits pending against the Company regarding possible infringement claims, there can be no assurance such claims will not be asserted in the future or that such assertions will not materially adversely affect the Company's business, financial condition and results of operation. Any such suit, whether or not having merit, would be costly to the Company in terms of employee time and defense costs and could materially adversely affect Network General and its business, financial condition and results of operations. If an infringement or misappropriation claim is asserted against Network General, the Company may need to obtain a license from the claimant to use the intellectual property rights. There can be no assurance that such a license will be available on reasonable terms or at all. Failure to obtain a license on commercially reasonable terms could materially adversely affect the Company's business, financial condition and results of operations.

Sales Channels. The Company has expanded its use of indirect product resale channels in certain territories (particularly North America) and has added a direct sales force in other territories (particularly Europe) previously served only by indirect sales channels. The existence of direct and indirect sales channels may lead to conflict for the same customer, pressure by current and prospective customers for price reductions on the Company's products and reductions in the Company's gross margin and operating profit. In addition, the success of a direct sales organization in a territory formerly covered by an independent distributor is dependent on a number of factors, including the ability to attract and retain qualified sales personnel, timely and effective training of the sales force and obtaining access to and penetrating the prospective customer base previously addressed by the prior reseller. For certain countries, the Company maintains a resale agreement

with a single reseller that either has exclusive distribution rights for the territory or has no other Network General reseller competing with it in the territory. The failure of such a reseller to perform its sales generation and support obligations under the distribution agreement could adversely affect the Company's revenue from, and reputation with, customers in the territory.

Supplier Dependence. Certain of the Company's products contain critical components supplied by a single or a limited number of third parties. The Company has been required to purchase and inventory certain of the computer platforms around which it designs its products so as to ensure an available supply of the product for its customers. Any significant shortage of these platforms or other components or the failure of the third party supplier to maintain or enhance these products could lead to cancellations of customer orders or delays in placement of orders which could materially adversely affect the Company's results of operations. If the Company's purchase of such components or platforms exceeds demand, the Company could incur losses or other charges in disposing of excess inventory, which could also materially adversely affect the Company's operating results.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

Assets
Current Assets:
Cash and cash equivalents
Marketable securities
Accounts receivable, net of allowances of $3,411 in 1997 and $2,445 in 1996
Inventories
Prepaid expenses and deferred tax assets
Total current assets
Property and Equipment:
Demonstration and rental equipment
Office and development equipment
Leasehold improvements
Less—accumulated depreciation and amortization
Net property and equipment
Long-term investments
Other assets
Liabilities and Stockholders' Equity
Current Liabilities:
Accounts payable
Accrued liabilities
Deferred revenue
Total current liabilities
Long-term deferred revenue and taxes
Stockholders' Equity:
Preferred stock—$.01 par value; authorized—2,000,000 shares; outstanding—none
Common stock—$.01 par value; authorized—100,000,000 shares; issued—43,248,588 shares at March 31, 1997 and 46,068,302 shares at March 31, 1996
Additional paid-in capital
Retained earnings
Less treasury stock, at cost—2,490,000 shares at March 31, 1996
Total stockholders' equity

The accompanying notes are an integral part of these consolidated financial statements.

	March 31,	
	1997	1996
	$ 48,778	$ 34,180
	83,661	81,417
	51,461	34,043
	5,307	4,863
	14,826	11,303
	204,033	165,806
	10,500	9,968
	34,732	27,443
	5,680	2,771
	50,912	40,182
	(30,035)	(23,006)
	20,877	17,176
	32,462	37,139
	5,899	3,209
	$ 263,271	$ 223,330
	$ 28,173	$ 4,300
	20,626	14,749
	31,216	20,916
	80,015	39,965
	3,860	3,248
	—	—
	432	461
	62,072	127,482
	116,892	91,799
	—	(39,625)
	179,396	180,117
	$ 263,271	$ 223,330

Consolidated Statements of Income

(In thousands, except per share amounts)
Revenues:
Product
Services
Total revenues
Cost of Revenues:
Product
Services
Total cost of revenues
Gross margin
Operating Expenses:
Sales and marketing
Research and development
General and administrative
Acquired in-process research and development
Total operating expenses
Income from operations
Interest income, net
Income before provision for income taxes
Provision for income taxes
Net income
Earnings per share
Weighted average common and common equivalent shares outstanding

The accompanying notes are an integral part of these consolidated financial statements.

Years Ended March 31,		
1997	1996	1995
$ 189,632	$ 152,656	$ 112,986
51,036	36,189	26,769
240,668	188,845	139,755
46,493	33,072	23,437
15,199	10,849	8,362
61,692	43,921	31,799
178,976	144,924	107,956
74,638	62,533	47,049
30,891	27,417	19,968
15,366	12,383	9,171
19,504	7,153	—
140,399	109,486	76,188
38,577	35,438	31,768
6,087	7,086	5,328
44,664	42,524	37,096
19,571	15,099	11,685
$ 25,093	$ 27,425	$ 25,411
$ 0.55	$ 0.60	$ 0.57
45,703	45,822	44,626

Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share amounts)	Common Stock	
	Shares	Amount
Balance March 31, 1994	41,919,530	$ 420
Issuance of common stock under the Employee Stock Purchase Plan at \$6.80–\$6.85 per share	239,778	2
Exercise of stock options at \$.01–\$10.25 per share	2,291,106	23
Tax benefit of stock options	—	—
Repurchase of common stock at \$8.37–\$14.44 per share	—	—
Net income	—	—
Balance March 31, 1995	44,450,414	445
Issuance of common stock under the Employee Stock Purchase Plan at \$10.57–\$13.97 per share	176,584	2
Exercise of stock options at \$2.19–\$16.31 per share	1,441,304	14
Tax benefit of stock options	—	—
Repurchase of common stock at \$11.87–\$21.81 per share	—	—
Net income	—	—
Balance March 31, 1996	46,068,302	461
Issuance of common stock under the Employee Stock Purchase Plan at \$14.98–\$15.09 per share	198,518	2
Exercise of stock options at \$0.33–\$20.00 per share	1,671,768	16
Tax benefit of stock options	—	—
Repurchase of common stock at \$17.63–\$28.13 per share	—	—
Retirement of treasury stock	(4,690,000)	(47)
Net income	—	—
Balance March 31, 1997	43,248,588	$ 432

The accompanying notes are an integral part of these consolidated financial statements.

Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
$ 92,900	$ 38,963	$ —	$ 132,283
1,635	—	—	1,637
10,106	—	—	10,129
4,882	—	—	4,882
—	—	(8,755)	(8,755)
—	25,411	—	25,411
109,523	64,374	(8,755)	165,587
2,155	—	—	2,157
9,459	—	—	9,473
6,345	—	—	6,345
—	—	(30,870)	(30,870)
—	27,425	—	27,425
127,482	91,799	(39,625)	180,117
2,984	—	—	2,986
15,259	—	—	15,275
8,874	—	—	8,874
—	—	(52,949)	(52,949)
(92,527)	—	92,574	—
—	25,093	—	25,093
$ 62,072	$ 116,892	$ —	$ 179,396

Consolidated Statements of Cash Flows

(In thousands)

Cash Flows from Operating Activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Depreciation and amortization
Deferred taxes, net
Acquired in-process research and development
Changes in operating assets and liabilities, net of effects from purchase of 3DV Technology, Inc. and AIM Technology:
Accounts receivable
Inventories
Prepaid expenses and other assets
Accounts payable and accrued liabilities
Deferred revenue
Net cash provided by operating activities
Cash Flows from Investing Activities:
Purchases of held-to-maturity investments
Purchases of available-for-sale investments
Proceeds from maturities of held-to-maturity investments
Proceeds from sales/maturities of available-for-sale investments
Cash used to purchase AIM Technology
Net additions to property and equipment
Net cash used in investing activities
Cash Flows from Financing Activities:
Proceeds from issuance of common stock
Repurchases of common stock
Net cash (used in) provided by financing activities
Net increase in cash and cash equivalents
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period

Supplemental Disclosures

Cash paid during the year for:

Income taxes

The accompanying notes are an integral part of these consolidated financial statements.

Years Ended March 31,		
1997	1996	1995
$ 25,093	$ 27,425	$ 25,411
11,524	9,201	6,837
(4,278)	(516)	2,599
19,504	7,153	—
(16,993)	(14,896)	1,638
(444)	(637)	(2,194)
(663)	1,058	(3,405)
8,222	3,609	202
10,829	7,476	2,056
52,794	39,873	33,144
(112,062)	(204,626)	(114,264)
(35,707)	—	—
112,977	213,262	96,643
37,516	—	—
—	(6,501)	—
(14,738)	(13,883)	(8,752)
(12,014)	(11,748)	(26,373)
26,767	17,975	16,648
(52,949)	(30,870)	(8,755)
(26,182)	(12,895)	7,893
14,598	15,230	14,664
34,180	18,950	4,286
$ 48,778	$ 34,180	$ 18,950
$ 11,856	$ 9,042	$ 5,368

Notes to Consolidated Financial Statements

1. *Operations*

Network General Corporation ("Network General" or the "Company") designs, manufactures, markets and supports software-based fault and performance solutions for managing computer networks. The Company also provides software update and maintenance, education and consulting services. The Company's markets are worldwide and include the communications, banking, finance, insurance, manufacturing, services and government industries. The Company was incorporated in 1986 as a California corporation and changed its state of incorporation to Delaware in fiscal year 1988.

2. *Summary of Significant Accounting Policies*

Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany accounts and transactions.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Acquisitions. On March 31, 1997, the Company acquired all of the outstanding capital stock and options of 3DV Technology, Inc. ("3DV") for $20,000,000. The acquisition was funded with existing cash and was accounted for using the purchase method of accounting. The purchase price was paid subsequent to fiscal year 1997 and, as such, the purchase price is included in accounts payable and other related acquisition costs are included in accrued liabilities at March 31, 1997.

A portion of the purchase price was allocated to the net assets acquired and liabilities assumed based on their estimated fair values. The fair value of tangible assets acquired and liabilities assumed was $1,180,000 and $216,000, respectively. In addition, $19,504,000 of the purchase price was allocated to in-process research and development projects that had not reached technological feasibility and had no probable alternative future uses, which the Company expensed at the date of acquisition. The remainder of the acquisition purchase price was allocated to goodwill and will be amortized over four years.

The following table reflects the unaudited pro forma combined results of operations of the Company and 3DV on the basis that the acquisition had taken place at the beginning of the fiscal year for each of the periods presented:

(In thousands, except per share amounts)	1997	1996
Revenues	$ 242,250	$ 189,528
Net income	24,225	27,190
Earnings per share	$ 0.53	$ 0.59
Shares used in computation	45,703	45,822

In September 1995, the Company acquired all of the remaining 90% voting interest of AIM Technology ("AIM"), which it did not own, for approximately $7,101,000, including $600,000 invested by the Company in

fiscal year 1995 for 10% of the voting interest of AIM. The acquisition was funded with existing cash and was accounted for using the purchase method of accounting. Accordingly, the results of AIM's operations have been included with those of the Company since the date of acquisition.

A portion of the purchase price was allocated to the net assets acquired and liabilities assumed based on their estimated fair values. The fair value of tangible assets acquired and liabilities assumed was $1,385,000 and $1,437,000, respectively. In addition, $7,153,000 of the purchase price was allocated to in-process research and development projects that had not reached technological feasibility and had no probable alternative future uses, which the Company expensed at the date of acquisition.

The following table reflects the unaudited pro forma combined results of operations of the Company and AIM on the basis that the acquisition had taken place at the beginning of the fiscal year for each of the periods presented:

(In thousands, except per share amounts)	1996	1995
Revenues	$ 190,740	$ 142,537
Net income	27,526	25,327
Earnings per share	$ 0.60	$ 0.57
Shares used in computation	45,822	44,626

Revenues. The Company recognizes product revenues upon shipment of systems or software and defers and recognizes warranty revenue in accordance with Statement of Position 91-1, "*Software Revenue Recognition.*" Revenues on rental units under operating leases and service agreements are recognized ratably over the term of the rental or service period. Revenues for education courses are recognized once the course has been

completed by the customer. Payments received in advance under such contracts are recorded as deferred revenues. Royalty income is recognized based on the number of copies of software sold to the licensees of software products.

Export revenues as a percentage of revenues were as follows:

	1997	1996	1995
Europe	11%	9%	12%
Asia/Americas/Canada	16%	15%	10%
Total export revenues	27%	24%	22%

Cash and Cash Equivalents. The Company considers certificates of deposits, commercial paper and money market funds with an original maturity date of three months or less to be cash equivalents.

Marketable Debt and Equity Securities and Long-term Investments. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the company has the positive intent and ability to hold the securities to maturity. Marketable debt and equity securities and long-term investments not classified as held-to-maturity are classified as available-for-sale. Held-to-maturity investments are stated at cost, adjusted for amortization of premiums and accretion of discounts to maturity. Available-for-sale debt and equity securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity, if significant. No debt or equity securities were classified as available-for-sale at March 31, 1996.

As of March 31, the following is a summary of held-to-maturity and available-for-sale securities:

	Held-to-Maturity Securities		
(In thousands)	Amortized Cost	Aggregate Fair Value	Unrealized Gains
1997:			
Debt securities issued by the U.S. Treasury and other U.S. government agencies	$ 9,955	$ 9,955	$ —
Debt securities issued by states of the United States and political subdivisions of the states	74,784	74,890	106
	$ 84,739	$ 84,845	$ 106

	Available-for-Sale Securities		
(In thousands)	Amortized Cost	Aggregate Fair Value	Unrealized Gains (Losses)
1997:			
Debt securities issued by states of the United States and political subdivisions of the states	$ 26,720	$ 26,770	$ 50
Equity securities issued by corporations	5,043	4,614	(429)
	$ 31,763	$ 31,384	$ (379)

(In thousands)	Held-to-Maturity Securities Amortized Cost	Aggregate Fair Value	Unrealized Gains (Losses)
1996:			
Debt securities issued by the U.S. Treasury and other U.S. government agencies	$ 41,071	$ 41,053	$ (18)
Debt securities issued by states of the United States and political subdivisions of the states	77,485	77,962	477
	$ 118,556	$ 119,015	$ 459

Foreign Exchange Forward Contracts. The Company enters into foreign exchange forward contracts as a hedge against foreign accounts receivable and cash. Gains and losses on foreign exchange forward contracts are included in net income.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market and include material and related manufacturing overhead. As of March 31, inventories consist of:

(In thousands)	1997	1996
Purchased parts	$ 1,386	$ 2,650
Finished goods	3,921	2,213
	$ 5,307	$ 4,863

Certain of the Company's products contain critical components supplied by a single or a limited number of third parties. The Company has been required to purchase and inventory certain of the computer platforms around which it designs its products so as to ensure an available supply of the product for its customers. Any significant shortage of these platforms

or other components or the failure of the third party supplier to maintain or enhance these products could materially adversely affect the Company's results of operations.

Property and Equipment. Property and equipment are stated at cost. Depreciation is computed by the straight-line method for financial reporting purposes. Estimated useful lives range from two to five years for demonstration, rental, office and developmental equipment. Leasehold improvements are amortized over the corresponding lease term.

Software Development Costs. The Company anticipates capitalizing eligible computer software development costs upon the establishment of technological feasibility, which the Company has defined as completion of a working model. The period of time beginning with the establishment of a working model and ending when a product is offered for sale is typically very short. Accordingly, costs which were eligible for capitalization are insignificant and, thus, the Company has charged all software development costs to research and development expense in the accompanying consolidated statements of income.

Earnings Per Share. Earnings per share are computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Fully diluted earnings per share are the same as primary earnings per share.

The Board of Directors authorized a 2-for-1 stock split in the form of a stock dividend of the Company's $0.01 par value common stock which was effective May 1996. All references in the accompanying consolidated financial statements to the number of common shares and per share amounts for fiscal year 1996 and prior periods presented have been restated to reflect the stock split.

Presentation. Fiscal year 1995 financial statement balances have been reclassified to conform to fiscal year 1997 and 1996 presentations.

3. *Concentrations of Credit Risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company has investment policies that limit the amount of credit exposure with any one issuer and restrict placement of these investments to issuers evaluated as creditworthy. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across many different industries and geographies. No single customer accounted for more than 10% of revenues in fiscal years 1997, 1996 or 1995.

4. *Foreign Exchange Forward Contracts*

During fiscal year 1997, the Company began hedging its exposure to foreign currency fluctuations through foreign exchange forward contracts. Gains and losses associated with currency rate changes on foreign exchange forward contracts are recorded currently in income as they offset corresponding gains and losses on the foreign currency denominated assets being hedged.

5. *Accrued Liabilities*

As of March 31, accrued liabilities consist of the following:

(In thousands)	1997	1996
Accrued compensation and related taxes	$ 7,197	$ 5,583
Accrued acquisition and merger costs	2,126	293
Accrued commissions	1,636	1,126
Accrued income taxes	1,198	1,157
Other accrued expenses	8,469	6,590
	$ 20,626	$ 14,749

6. *Commitments and Contingencies*

The Company leases its facilities and certain equipment under non-cancelable operating lease agreements. As of March 31, 1997, the minimum future lease payments under these leases are as follows:

(In thousands)	
Fiscal Year	
1998	$ 5,707
1999	5,302
2000	5,194
2001	4,001
2002	1,470
	$ 21,674

Total rent expense was $6,092,000, $4,785,000 and $4,115,000 in fiscal years 1997, 1996 and 1995, respectively.

The Company is a defendant in various suits and is subject to various claims which arise in the normal course of business. In the opinion of management, the ultimate disposition of these claims will not have a

material adverse effect on the consolidated financial position, liquidity or results of operations of the Company.

7. *Share Repurchase Program*

In July 1993, the Company's Board of Directors authorized the Company to repurchase up to 4,000,000 shares of its common stock on the open market to satisfy commitments under its stock option and stock purchase plans. In fiscal year 1996, up to an additional 4,000,000 shares of the Company's common stock were authorized for repurchase for the same purpose. As of March 31, 1997, the Company had repurchased and retired 4,690,000 shares at an aggregate cost of $92,574,000.

8. *Compensation and Benefit Programs*

Stock Option Plans. Under the Company's 1989 Employee Stock Option Plan, key employees and consultants may be granted either incentive or non-qualified options to purchase common stock at the discretion of the Board of Directors. The Company currently has authorized a total of 16,000,000 shares for issuance under this plan. The exercise price of the stock options may not be less than the fair market value of the common stock on the date of the grant. Employees can receive an initial option grant upon joining the Company and employees may be granted subsequent options based upon performance. Prior to July 19, 1993, initial option grants vested ratably each year over a three-year period from the grant date, while subsequent option grants generally vested in a lump sum amount three years after the date on which each subsequent option was granted. In fiscal year 1994, the vesting schedules were amended for any options granted on or after July 19, 1993. Generally, initial option grants vest 25% at the end of the first year and then ratably each month for an

additional three years, while subsequent option grants vest ratably each month beginning one month after the grant date for four years. Options issued prior to July 19, 1993, not submitted for repricing in fiscal year 1994, continue to vest according to their original schedule.

In April 1989, the Company established the 1989 Outside Directors Stock Option Plan, whereby outside directors may be granted non-qualified options to purchase common stock. The number of shares of common stock authorized for issuance under this plan is 1,020,000. The exercise price of the stock option may not be less than the fair market value of the common stock on the date of the grant. Each outside director is granted an initial option grant of 40,000 shares upon election to the Board and an option grant of 5,000 shares each subsequent year. Prior to July 19, 1993, initial option grants vested ratably each year over a three-year period from the grant date, while subsequent option grants generally vested in a lump sum amount three years after the date on which each subsequent option was granted. In fiscal year 1994, the vesting schedules were amended for any options granted on or after July 19, 1993. Generally, initial option grants now vest 25% at the end of the first year and then ratably each month for an additional three years, while subsequent option grants now vest ratably each month between the third and fourth year after the grant date. Directors were excluded from participating in both the fiscal year 1994 and the fiscal year 1993 option repricing. Options issued prior to July 19, 1993, continue to vest either ratably over a three-year period or in a lump sum amount at the end of three years.

In connection with the acquisition of ProTools, Inc. ("ProTools") in January 1994, the Company assumed the outstanding stock options of ProTools. At the time of the merger, 545,660 equivalent ProTools incentive stock options were outstanding. As of March 31, 1997, 7,042 incentive stock options remain outstanding, all of which are fully vested and exercisable at $0.33 per share.

Employee Stock Purchase Plan. The Company has authorized 1,500,000 shares of common stock for issuance under the 1989 Employee Stock Purchase Plan. Employees may elect to withhold up to 10% of their compensation for the purchase of the Company's common stock. The amounts withheld are used to purchase the Company's common stock at a price equal to 85% of the fair market value of the stock on the first or last day of a six-month offering period, whichever is lower. The Company issued 198,518 shares at an average price of $15.04 per share in fiscal 1997, 176,584 shares at an average price of $12.21 per share in fiscal 1996 and 239,778 shares at an average price of $6.82 per share in fiscal 1995.

The Company has elected to follow Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB 25"), and related interpretations in accounting for its stock options and employee stock purchase plan because, as discussed below, the alternative fair value accounting provided for under Financial Accounting Standards Board Statement No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

Pro forma information regarding net income and net income per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options and employee stock purchase plan under the fair value method of SFAS 123. The fair value for the stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for fiscal years 1997 and 1996: risk-free interest rates in the range of 5.20% to 6.61%; dividend yields of zero; an expected volatility factor of the market price of

the Company's common stock of 0.60; and an expected life of the option of 0.59 years after vest date. The weighted-average estimated fair value of options granted during fiscal 1997 and 1996 was $8.61 and $7.68 per share, respectively. The fair value of the employees' purchase rights was also estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for fiscal years 1997 and 1996: risk-free interest rates in the range of 5.09% to 6.10%; dividend yields of zero; an expected volatility factor of the market price of the Company's stock of 0.60; and an expected life of 6 months. The weighted-average estimated fair value of shares issued under the employee stock purchase plan for fiscal years 1997 and 1996 was $5.12 and $4.72, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected option life. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting periods. The Company's pro forma net income would have been $13,055,000 and $21,950,000 for fiscal years 1997 and 1996, respectively. Pro forma net income per common and common equivalent share would have been $0.29

and $0.48 for fiscal years 1997 and 1996, respectively. A summary of the Company's stock option activity, and related information for the years ended March 31 follows:

	1997		1996		1995	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding—beginning of year	7,590,559	$11.65	6,763,141	$ 7.60	7,120,678	$5.53
Granted	1,889,050	18.85	3,329,670	16.92	3,429,076	9.27
Exercised	(1,671,768)	8.97	(1,441,304)	6.61	(2,291,106)	4.36
Forfeited	(758,135)	13.76	(1,060,948)	9.19	(1,495,507)	6.57
Outstanding—end of year	7,049,706	13.99	7,590,559	11.65	6,763,141	7.60
Exercisable—end of year	2,066,709	10.60	1,540,331	7.73	900,062	6.27

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 3/31/97	Weighted-Average Remaining Contractual Life (In years)	Weighted-Average Exercise Price	Number Exercisable at 3/31/97	Weighted-Average Exercise Price
$ 0.33	7,042	5.77	$ 0.33	7,042	$ 0.33
3.88– 6.44	860,600	5.15	5.26	536,352	5.35
6.81– 10.25	1,677,970	7.15	8.77	761,850	8.76
11.53– 17.38	2,477,889	8.80	15.30	526,604	14.77
17.75– 25.13	2,009,205	8.98	20.41	234,861	19.50
$27.38	17,000	9.75	27.38	—	—

Common Stock Award Plan. In June 1989, the Board of Directors approved the 1989 Common Stock Award Plan and reserved 240,000 shares for issuance thereunder. Under this plan, awards are made to independent sales representatives and consultants based upon individual sales performance criteria. The shares are issued at fair market value and the related value of the shares is charged to sales and marketing expense over the vesting period. The shares generally vest over three years and the Company can reacquire any unvested shares upon termination of the individual's relationship with the Company. No shares of common stock were awarded under this plan in fiscal years 1997, 1996 or 1995. As of March 31, 1997, the number of shares that has been awarded under this plan is 58,936, all of which are fully vested.

Common Stock Reserved for Future Issuance.
As of March 31, 1997:

1989 Employee Stock Option Plan	9,076,958
1989 Outside Directors Stock Option Plan	517,500
1989 Employee Stock Purchase Plan	247,198
1989 Common Stock Award Plan	181,064
1990 ProTools, Inc. Stock Option Plan	7,042
	10,029,762

Employee Savings Plan. In September 1988, the Board of Directors approved an employee savings plan (the "Plan") which is intended to be qualified and exempt from tax under Section 401(k) of the Internal Revenue Code. Under the Plan, employees may elect to contribute up to 15% of their gross compensation, subject to annual I.R.S. limitations. The Company contributes to the Plan in amounts determined at the discretion of the Board of Directors. All contributions by the Company are funded

currently and vest ratably over three years. All employee contributions are fully vested. Annual amounts provided by the Company under the plan to date have not been material.

9. *Income Taxes*

Pre-tax income from continuing operations for the years ended March 31 was taxed in the following jurisdictions:

(In thousands)	1997	1996	1995
Domestic	$ 43,243	$ 42,119	$ 36,535
Foreign	1,421	405	561
	$ 44,664	$ 42,524	$ 37,096

Significant components of the provision for income taxes attributable to continuing operations are as follows:

(In thousands)	1997	1996	1995
Federal			
Current payable	$ 18,291	$ 13,990	$ 11,311
Deferred tax asset	(1,433)	(1,399)	(605)
Non-current deferred	(1,233)	(503)	(1,673)
Total federal	15,625	12,088	9,033
State			
Current payable	3,825	2,730	2,876
Non-current deferred	(617)	(189)	(489)
Total state	3,208	2,541	2,387
Foreign	738	470	265
Total provision	$ 19,571	$ 15,099	$ 11,685

Deferred tax assets are comprised of the following at March 31:

(In thousands)	1997	1996
Deferred revenue currently recognized for tax purposes	$ 959	$ 1,058
Reserves and accruals not currently deductible for tax purposes	5,807	4,183
State taxes not currently deductible for federal tax purposes	147	307
Depreciation and amortization	3,456	2,763
Operating loss carryover of ProTools, AIM and 3DV	968	2,472
Total deferred tax asset	11,337	10,783
Valuation allowance	(968)	(2,472)
Net deferred tax asset	$ 10,369	$ 8,311

The valuation allowance consists of the operating losses of ProTools, a wholly owned subsidiary, acquired in January 1994 in a transaction accounted for as a pooling of interests, AIM, a wholly owned subsidiary, acquired in September 1995 in a transaction accounted for as a purchase and 3DV, a wholly owned subsidiary, acquired March 31, 1997 in a transaction accounted for as a purchase. The operating losses are subject to certain annual limitations as a result of the acquisitions and may expire before the Company can utilize them. The Company believes sufficient uncertainty exists regarding the realizability of these losses on a separate entity basis, and accordingly, a valuation allowance has been established.

Realization of the remaining net deferred tax asset of $10,369,000 as of March 31, 1997 is dependent on generating sufficient taxable income to offset future deduction of the related items. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

U.S. income taxes were not provided for on a cumulative total of approximately $1,846,000 of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States.

The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense is:

	1997	1996	1995
Tax at U.S. statutory rates	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	5.5	5.2	5.1
Permanent differences	(11.2)	(10.4)	(8.6)
Change in valuation allowance	(4.3)	—	—
Merger, acquisition and related costs	18.8	5.7	—
	43.8%	35.5%	31.5%

10. *Related Party Transaction*

In connection with the acquisition of ProTools, Network General assumed certain royalty obligations to a company whose principal stockholder was also an officer of Network General. The royalty obligations called for royalty payments through December 31, 1999 or until $920,000 in aggregate royalties had been paid. In fiscal 1995, Network General negotiated a lump sum payment of $572,000 to this company in full settlement of all royalties owed under this agreement. The prepaid royalty was being expensed as a cost of goods sold as related revenues were recognized and was fully expensed as of March 31, 1996.

11. *Recently Issued Accounting Standard*

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, *"Earnings per Share,"* ("SFAS 128") which is required to be adopted by the Company in its third quarter of fiscal 1998. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate earnings per share for all prior periods. Under the new requirements for calculating earnings per share, primary earnings per share will be replaced with basic earnings per share and fully diluted earnings per share will be replaced with diluted earnings per share. Under basic earnings per share, the dilutive effect of stock options will be excluded. The Company does not expect the effect of adopting SFAS 128 to have a material impact on earnings per share.

Report of Independent Public Accountants

The Board of Directors and Shareholders
Network General Corporation:

We have audited the accompanying consolidated balance sheets of Network General Corporation (a Delaware corporation) and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Network General Corporation and subsidiaries as of March 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1997 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

San Jose, California
April 18, 1997

Corporate Sales Offices

Domestic Sales Offices

Hoover, AL
Mesa, AZ
Anaheim, CA
Menlo Park, CA
Sacramento, CA
San Diego, CA
San Jose, CA
Santa Clara, CA
Englewood, CO
East Berlin, CT
Jacksonville, FL
Miami, FL
Miramar, FL
Oviedo, FL
Palm Beach Gardens, FL
Winter Park, FL
Roswell, GA
Tucker, GA
Honolulu, HI
Des Moines, IA
Oakbrook Terrace, IL
Fishers, IN
Lebanon, IN
Overland Park, KS
New Orleans, LA
Westborough, MA
Severna Park, MD
Silver Spring, MD
Troy, MI
Minneapolis, MN
Ballwin, MO
Blue Springs, MO
Fenton, MO
Cary, NC
Cornelius, NC
Fuquay-Varina, NC
Clifton, NJ
Iselin, NJ
Nutley, NJ
Shamong, NJ
Springlake, NJ
Conshohocken, PA
Caledonia, NY
Hilton, NY
New York, NY
Poughkeepsie, NY
Rochester, NY
Cinncinati, OH
Independence, OH
West Chester, OH
Oklahoma City, OK
Tulsa, OK
Beaverton, OR
Doylestown, PA
Jeannette, PA
La Vergne, TN
Austin, TX
Carrollton, TX
Cedar Park, TX
Houston, TX
Southlake, TX
Sandy, UT
Dunn Loring, VA
Bellevue, WA
Appleton, WI

International Sales Offices

South Melbourne, Australia
North Sydney, Australia
Waterloo, Belgium
Burnaby, British Columbia, Canada
Calgary, Alberta, Canada
Orleans, Ontario, Canada
Richmond Hill, Ontario, Canada
St. Laurent, Quebec, Canada
Windsor, Berkshire, England
Paris, France
Dusseldorf, Germany
Langen, Germany
Neuhausen-Schellbronn, Germany
Causeway Bay, Hong Kong
Varese, Italy
Mexico City, Mexico
Singapore
Glattbrugg, Switzerland
and distributors worldwide

Corporate Information

Transfer Agent

Inquiries regarding lost certificates, change of address, transfer of ownership or other stock account matters should be directed to:

Boston EquiServe
P.O. Box 644
Boston, MA 02102-0644
Attention:
Investor Relations
(800) 730-6001

Stock Listing

Network General's common stock is traded on the Nasdaq National Market under the symbol NETG.
As of May 31, 1997, there were 413 stockholders of record.

Dividend Information

Network General has never declared cash dividends and presently intends to continue this policy.

Investor Relations

To receive further information regarding the Company's operations, or to request copies of the 1997 Form 10-K, which is available at no charge, please contact:
Investor Relations
Network General Corporation
4200 Bohannon Drive
Menlo Park, CA 94025
(415) 473-2000

Legal Counsel

Gray Cary Ware &
Freidenrich
A Professional Corporation
Palo Alto, CA 94301

Independent Public Accountants

Arthur Andersen LLP
San Jose, CA 95110

Printed in U.S.A.

Corporate Directory

Board of Directors

Harry J. Saal
Chairman of the Board

Leslie G. Denend
President and
Chief Executive Officer

Dr. Howard Frank
Senior Fellow
Wharton School of Business

Gregory M. Gallo
Member
Gray Cary Ware &
Freidenrich
A Professional Corporation

Laurence R. Hootnick
President and
Chief Executive Officer
Consilium, Inc.

Charles J. Abbe
Vice President and
General Manager
Optical Coating
Laboratory, Inc.

Janet L. Hyland
President and Sole
Proprietor
eMagine

Douglas C. Chance
Chief Executive Officer
Wyse Technology

Senior Management

Leslie G. Denend*
President and
Chief Executive Officer

David M. Carver*
Executive Vice President
Chief Operating Officer

James T. Richardson*
Senior Vice President
Chief Financial Officer

John R. Stringer*
Senior Vice President
Worldwide Field Operations

Corporate Management

W. David Brown
Vice President,
Regional Director,
Europe/Middle East/Africa

James J. Flatley
Vice President,
North American
Field Operations

Stewart E. Fox
Vice President,
Indirect Sales Channels

Greg L. Gilliom
Vice President,
Engineering and
Chief Technical Officer

Lori L. Harmon
Vice President,
Telebusiness Sales

Matthew J. Hebb
Vice President and
General Manager,
Analysis Tools Business Unit

Thomas M. Hresko
Vice President,
Regional Director, West

Thomas J. Kempton
Vice President,
Regional Director, South

Daniel P. Lefelstein
Vice President,
Regional Director, North

Leon Y. Leong
Vice President and
General Manager,
Systems Technology
Business Unit

Lesley J. Mattos
Vice President,
Investor Relations and
Treasurer

Bakulesh A. Mehta
Vice President and
General Manager,
WAN/ Broadband
Business Unit

Scott C. Neely*
Vice President,
General Counsel and
Secretary

Thomas J. Orr
Vice President,
Regional Director,
Asia Pacific/Latin America

Terry L. Printy
Vice President,
Services Business Unit

Linda M. Stoloff
Vice President,
Strategy and Corporate
Development

Sally T. Takemoto
Vice President,
Human Resources

James J. Vopicka
Vice President,
Operations

Jim Whitaker
Vice President and
Chief Information Officer

Bernard J. Whitney*
Vice President and
Controller

Howard L. Yates
Vice President,
Regional Director, East

* *Executive Officers of the Corporation*

NETWORK GENERAL
IS PREPARED
TO GUIDE YOU.

Arts and Crafts: Cahan & Associates, San Francisco   Pictures: Ross MacDonald

Network General Corporation
4200 Bohannan Drive
Menlo Park, CA 94025 USA
Tel: 415.473.2000
Fax: 415.321.0855
URL: www.ngc.com

Network General will provide total network visibility!

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